



SCOTT PAPER LIMITED ANNUAL REPORT 1968

AR49

*Mrs
McKenzie*



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The cover. More exciting than ever before are the prospects for Scott products. Increasing use in home and industry; and now more diversified opportunities such as Scott's entry into disposable products for use in the medical field.

BOARD OF DIRECTORS

ARTHUR F. ARMSTRONG*, New Westminster, B.C.

H. CLARK BENTALL, President, Dominion Construction Company Ltd., Vancouver, B.C.

HARRISON F. DUNNING, Chairman of the Board and Chief Executive Officer, Scott Paper Company, Philadelphia, Pa.

A. DONALD LAUDER, Director, Odlum Brown & T. B. Read Ltd., Vancouver, B.C.

GEORGE L. O'LEARY*, New Westminster, B.C.

G. WILLING PEPPER, Director and Vice-President, Scott Paper Company, Philadelphia, Pa.

RENAULT ST-LAURENT, Q.C., LL.D., Partner, St-Laurent, Monast, Desmeules & Walters, Barristers & Solicitors, Quebec, P.Q.

HAROLD A. SHAUB, Senior Vice-President, Campbell Soup Company, Camden, N.J.; Director, Campbell Soup Company Limited, Toronto, Ont.

HORACE F. WINCHELL*, Montreal, P.Q.

*Company Officers

OFFICERS AND EXECUTIVE MANAGEMENT

CHARLES BENTALL, Honorary Chairman

ARTHUR F. ARMSTRONG, President and Managing Director

GEORGE L. O'LEARY, Executive Vice-President

JAMES C. BOYLE, Director of Sales, Industrial Packaged Products

W. CARL CARLSON, Treasurer and Assistant Secretary

MICHAEL W. FERRIE, Director of Corporate Personnel

G. VERNON FORSTER, General Manager, Western Manufacturing Division

BERNARD A. GOULET, Assistant Secretary and General Manager, Eastern Manufacturing Division

JOHN J. HERB, Assistant Secretary and Vice-President, Westminster Paper Company Limited

DOUGLAS HOLME, Assistant Vice-President (Director of Manufacturing)

NORMAN A. KELLY, President, Westminster Paper Company Limited

WILLIAM M. MATTICE, Director of Product Standards and Quality Control

PETER J. PETERS, Comptroller and Secretary

ALBERT C. PLANT, Assistant Vice-President (Corporate Administration and Planning)

H. PETER SANAGAN, Assistant Vice-President (Director of Sales, Consumer Products)

ROBERT T. STEWART, Vice-President (Marketing)

FRANK M. WARNOCK, Director of Marketing Services, Consumer Products

HORACE F. WINCHELL, Vice-President (Manufacturing and Engineering)

OFFICES AND PLANTS

HEAD OFFICE: New Westminster, B.C.

PLANTS: New Westminster, B.C. and Crabtree Mills, P.Q.

SALES OFFICES: Vancouver, Winnipeg, Toronto, Montreal and Halifax

TRANSFER AGENT AND REGISTRAR

THE CANADA TRUST COMPANY, Vancouver, Montreal and Toronto

AUDITORS

PRICE WATERHOUSE & CO. 1075 West Georgia Street, Vancouver 5, B.C.

STOCK LISTINGS

Vancouver and Toronto Stock Exchanges

ANNUAL MEETING

The Company's Annual Meeting of Shareholders will be held at 11:30 a.m. on April 18, 1969 at the Head Office of the Company, New Westminster, B.C.

A French language edition of this report has been published and is available on request.



TO THE SHAREHOLDERS

1968 was another year of growth for the company's sales volume, net sales and net income. Compared to the prior year, paper produced increased by 5,800 tons. The higher volume, coupled with favourable changes in product mix and somewhat higher prices, enabled the company to increase sales by 14% to \$34,133,043. Pre-tax income rose by 33.9% to \$3,019,586, including the operating results of Westminster Paper Company Limited. Earnings per share increased from \$1.76 reported for 1967 to \$1.79 after provision for an increase in the effective tax rate from 37.7% to 52.5%.

Both the Western and Eastern Manufacturing Divisions improved efficiencies again in 1968, assisted by the higher volume on established lines, new and rebuilt manufacturing equipment, new processes, and new products. Costs of purchased raw materials and supplies, freight, and manpower again rose faster than realized productivity gains, particularly in the second half of 1968.

The company's executive management was re-aligned at mid-year. Mr. George L. O'Leary was appointed Executive Vice President, and a number of younger men of proven ability were given added responsibilities. The average age of the officer and executive management group is 47 years. Mr. Robert J. Healey resigned as a Vice President and Director, to return to an important post with Scott Paper Company in the United States. Mr. Healey's unusual talents will be greatly missed.

In September of 1968 the company entered the disposable paper gown and bed sheet field with the purchase of the assets and business of

Omega Products Limited. This company, privately-owned, was acquired and transferred to a wholly-owned subsidiary, Westminster Paper Company Limited. Consolidation of certain operations of the two companies is well under way, with an anticipated improvement in efficiencies. We intend to expand the volume of present products sold principally to hospitals and the medical profession and to participate in the growing market for disposables in Canada.

While accurate forecasting is difficult these days, the outlook for 1969 appears favourable. Prospects for increased sales of trademarked consumer and industrial packaged products are excellent. Combined with the sales volume of our export, fine paper, specialty, and new product lines, we anticipate a higher degree of paper-making capacity utilization in the current year. Optimism for the immediate future must be tempered by the prospect of above normal increases in operating costs as well as by the higher costs of money for new construction and machinery needed for new facilities as well as the implementation of long range plans for new products and further diversification.

Again, we are most grateful for the invaluable support and cooperation received from customers, suppliers, and company people, all of whom contributed greatly to the 1968 results.

For the Board of Directors,

A. F. ARMSTRONG, President

March 6, 1969



1968 HIGHLIGHTS

SALES AND MARKETING

The company's 14% increase in net sales resulted from a balanced growth in all sales divisions and the more effective implementation of marketing plans.

Growing consumer acceptance of the company's products was a major factor, together with increased availability on the shelf in grocery, drug, department and specialty stores across Canada. The company was once again a large national advertiser, and the effective consumer messages, together with strong merchandising programmes, helped materially in the growth of Scott's share of an expanding market for sanitary and disposable paper products.

A continuing programme for product improvement and new product introductions again emphasized the company's market expansion concept and produced good results. The new Viva Towel, Lady Scott prints, and a new line of Scott Family Napkins all met with encouraging consumer approval and purchase rates.

A full economy provided unusually good growth opportunities for our industrial packaged products. In the growing "away from home" market, sanitary paper products used in factories, office buildings, schools, hospitals, hotels and motels grew rapidly, and Scott products shared heavily in this increase.

The market for the company's export and specialty paper sales was strong in 1968, and we developed a small but important volume on the grades of fine paper produced and sold in eastern Canada. In September, with our acquisition of Omega Products Limited, the sales volume of medical examination gowns, bibs, sheets and pillow cases was added to Scott's product line. We believe that the acquisition of an established company in the disposable field will enhance future growth in this exciting new area.

MANUFACTURING

Operating expenses, including costs of pulpwood, purchased materials and supplies, payroll costs and taxes, again rose rapidly in 1968—particularly in the second half of the year. The provision for depreciation increased from \$1,079,069 in 1967 to \$1,223,178 in 1968 as a result of the additions of new equipment and facilities.

On the favourable side, the rate of utilization of our installed paper-making capacity rose in 1968 because of the increases in sales volume. The new and rebuilt machinery increased out-

Lady Scott Facial and Bathroom Tissue in matching prints and colours: the newest idea in functional, attractive, convenience products.

The growing range of Scott products for the home meet the ever-increasing desire for work-saving aids.

Viva Towels, the latest addition to the Scott line, represent a dramatic improvement in paper towels. 2-ply and specially bonded to prevent separation, Viva Towels are more like cloth and do jobs as no other paper towel can.

2-PLY

SCOTT'S

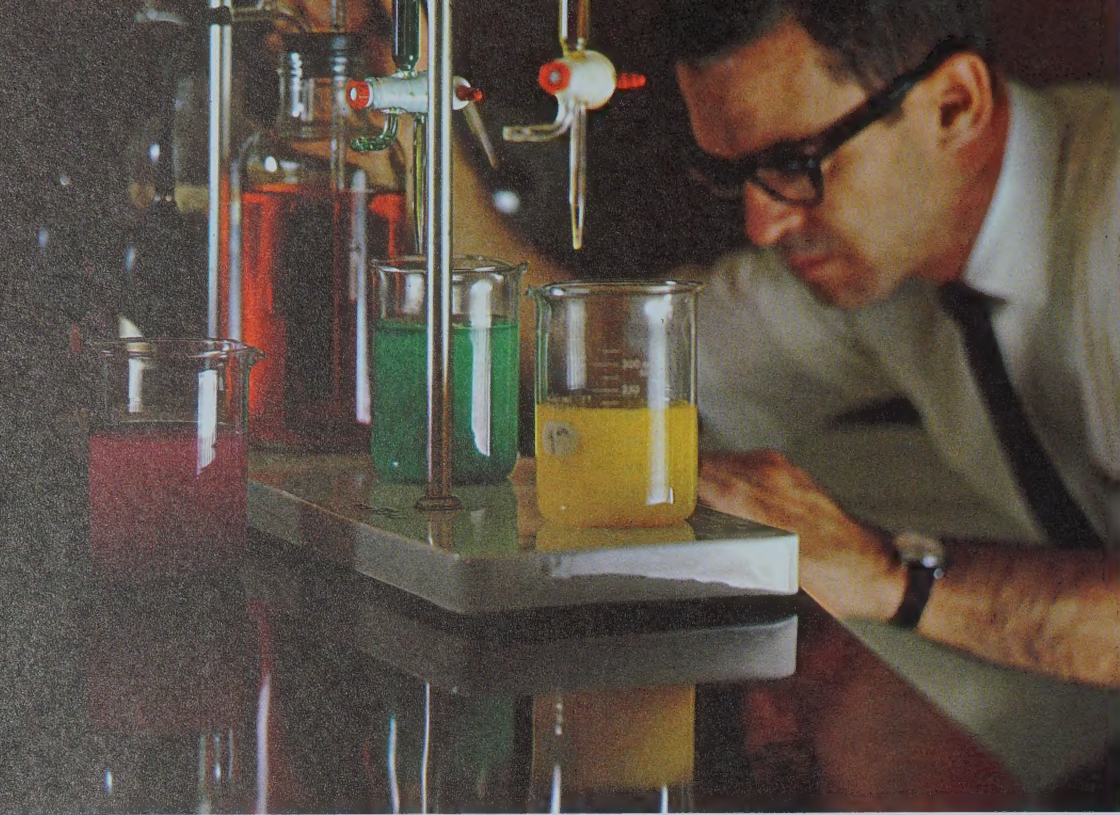
NEW!

VIVA

The Miracle Towel

2-PLY, CUSHIONY SOFT,
AND SUPER ABSORBENT!





Research by Scott people, backed by the best equipment available, leads to profitable market development and expansion into new markets.

Expanding industry with more offices and factories along with the upsurge in travel, as witnessed by hotel, motel and restaurant growth, gave dramatic growth to Scott's industrial sales volume in 1968.

Westminster Paper Company's examination gown has achieved good acceptance in Canadian markets. Made of poly-reinforced tissue, it is the first of its kind to be manufactured by a fully automated process.

put per man hour and achieved increased operating efficiencies, which helped to offset rising costs.

In the Western Division, the new wood breakdown plant in the pulp mill was brought into efficient operation. In the Eastern Manufacturing Division, a machine was installed for the production of high quality non-woven textile material used in the manufacture of certain products, replacing purchased supplies. In both the Eastern and Western Divisions, further improvements were made to all six paper-making machines to increase capacity and production rates. More finishing and converting equipment was installed, and new layouts and processes were brought into operation. These projects, coupled with the upgrading of personnel skills and changes in the supervisory organization, resulted in higher efficiencies, more flexibility, and additional production capacity for new product lines.

FINANCIAL

Following the recommendations of the Canadian Institute of Chartered Accountants, the company changed its method of reporting results followed in 1967 and prior years, from the "cash flow through" basis to the "deferred tax" basis. The effective income tax rate rose from 37.7% in 1967 to 52.5% in 1968. However, for the year just ended, capital cost allowances claimed for income tax purposes and depreciation charges in the accounts were approximately equal. Therefore no accounting adjustments were necessary to set aside a reserve for deferred taxes on income.

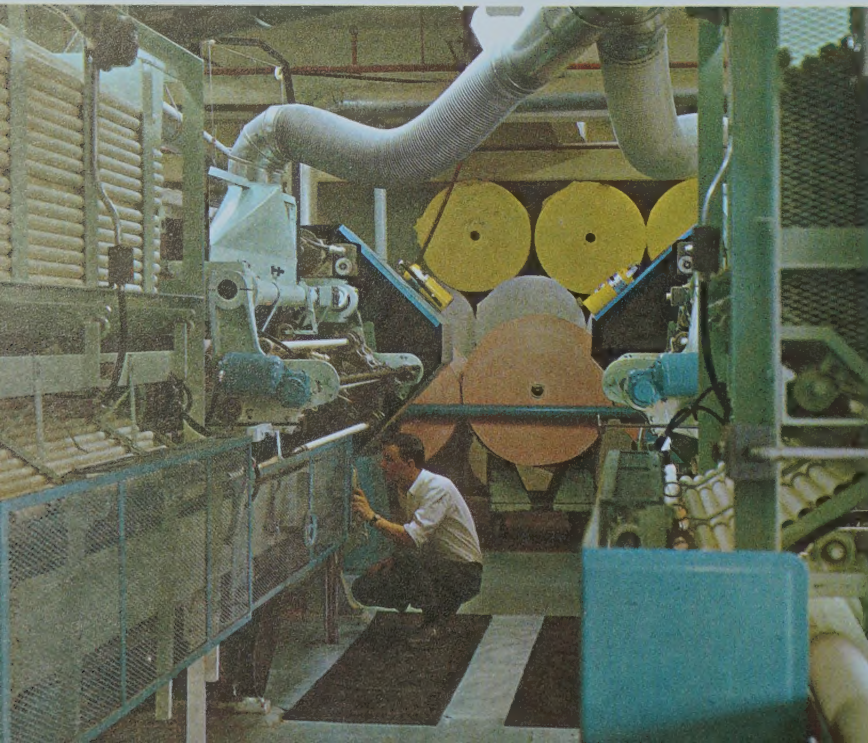
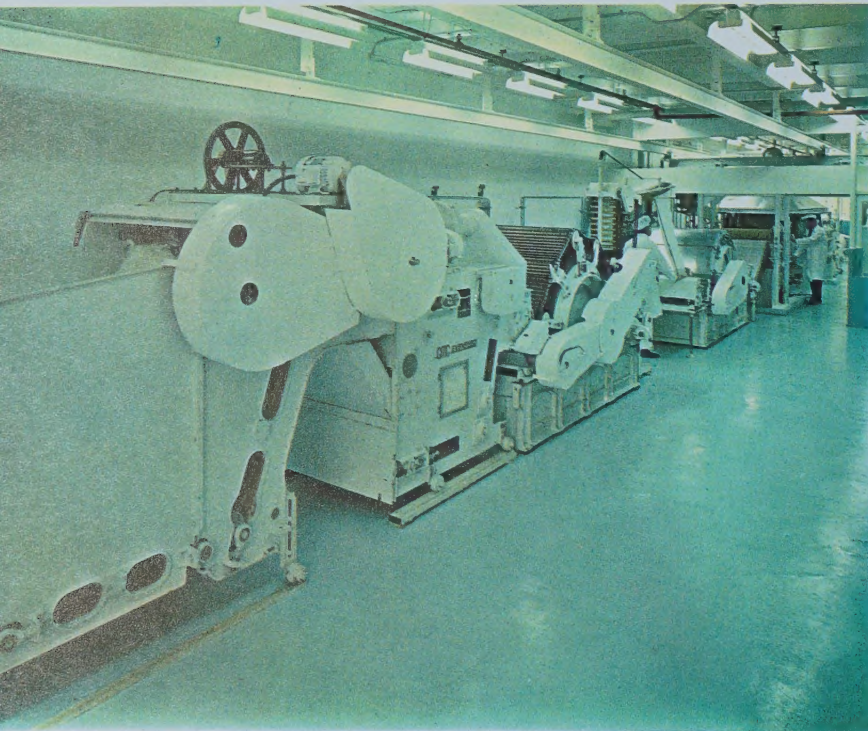
Income before taxes increased by 33.9% to \$3,019,586. After-tax earnings for the year amounted to \$1,434,586, or \$1.79 per share, compared to \$1,405,547, or \$1.76 per share in 1967. Long-term bank indebtedness was reduced by \$300,000 at year end. The dividend rate on the common shares was increased, commencing with the January 31st, 1969, dividend. The new indicated annual dividend rate is 90c per share for 1969 compared to 80c per share paid in 1968, which marked the 38th consecutive year of dividend payments to company shareholders.

The shares of the company, traded since 1938 on the Vancouver Exchange, were listed for trading on the Toronto Stock Exchange as of January 6, 1969. In addition to the new listing we expanded our share transfer facilities to include the cities of Toronto and Montreal.



Recently installed, new, modern equipment used in the manufacture of synthetic fabrics.

Improved equipment and modernized layout result in high speed, fully automatic finishing equipment producing top quality bathroom tissues for the consuming public.



GENERAL COMMENTS AND FUTURE PROSPECTS

During the year, the labour agreements in the Eastern and Western Manufacturing Divisions expired and were re-negotiated. The new eastern agreement runs until May 30th, 1970, and the new western agreement to June 30th, 1970. Both contracts call for substantial increases in payroll and fringe benefit costs, exceeding anticipated productivity gains.

The company's sales quotas for 1969 call for increased utilization of the company's paper-making and manufacturing facilities and are expected to result in even higher production rates and better operating efficiencies.

Capital expenditures totalled \$2,187,542 in 1968 and will be higher in 1969, as plans to increase capacity and provide for new products are implemented in both Eastern and Western Manufacturing Divisions.

Unless the inflationary trends in the economy can be checked, it follows that operating costs, interest rates, and the costs of capital improvements and construction will remain high or increase at faster-than-normal rates. In order to maintain the improvement in the return on invested capital achieved in 1967 and 1968, efforts will continue to increase sales volume and maintain effective control over costs and expenses, so that maximum results can be obtained in all divisions of the company.

The combined efforts of the company's management and people contributed heavily to the productivity gains of 1967 and 1968. However, these gains were materially reduced by the inflated and large additional cost burdens — particularly payroll costs — which the company has had to absorb. In 1969 shareholders can again count on management, assisted by the skills and cooperation of all Scott people, to obtain the best possible overall sales and profit growth.



SUMMARY OF SIGNIFICANT FIGURES

	1968	1967
Net sales.....	\$34,133,043	\$29,894,487
Depreciation.....	1,223,178	1,079,069
Interest expense.....	211,189	243,482
Income before taxes.....	3,019,586	2,255,547
Income per share before taxes.....	3.77	2.82
Income taxes*.....	1,585,000	850,000
Income after taxes.....	1,434,586	1,405,547
Income per share after taxes.....	1.79	1.76
Cash flow per share.....	3.39	3.11
Common stock outstanding at year end.....	800,000 Shares	800,000 Shares
Income reinvested in the business.....	\$ 794,586	\$ 765,547
Dividends.....	640,000	640,000
Dividends paid per share.....	.80	.80
Capital expenditures.....	2,187,542	1,480,308
Shareholders' interest per share.....	22.69	21.70

*See Note 2 attached to financial statements.

**CONSOLIDATED STATEMENT OF INCOME AND INCOME RETAINED IN THE BUSINESS**

FOR THE YEAR ENDED DECEMBER 31 1968
(with comparable amounts for the year ended December 31 1967) (Note 1)

	1968	1967
Sales, less allowances and after deducting Federal sales tax of \$3,195,263 (1967 - \$2,669,729) ----	\$34,133,043	\$29,894,487
Expenses:		
Cost of products sold -----	22,679,494	20,031,988
Selling and distribution expenses -----	6,904,369	6,226,163
Administrative and general expenses -----	1,318,405	1,137,307
Interest expense -----	211,189	243,482
	31,113,457	27,638,940
Income before deducting income taxes -----	3,019,586	2,255,547
Income taxes (Note 2) -----	1,585,000	850,000
Income for the year -----	1,434,586	1,405,547
Income retained in the business at the beginning of the year -----	10,760,877	9,995,330
	12,195,463	11,400,877
Dividends - 80c per share -----	640,000	640,000
Income retained in the business at the end of the year -----	\$11,555,463	\$10,760,877

Note:

Expenses include depreciation (Note 2) of \$1,223,178 (1967 - \$1,079,069) and directors' fees and the remuneration of officers who are also directors, of \$187,915 (1967 - \$123,845).

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

DECEMBER 31 1968

(with comparable balances as at December 31 1967) (Note 1)

	1968	1967
CURRENT ASSETS:		
Cash -----	\$ 22,625	\$ 22,875
Trade and other accounts receivable -----	3,206,299	2,632,899
Inventories, at the lower of cost or market -----	5,695,134	5,650,984
Prepaid expenses -----	143,118	152,316
	<u>9,067,176</u>	<u>8,459,074</u>
CURRENT LIABILITIES:		
Short-term bank indebtedness -----	3,871,353	3,154,567
Accounts payable and accrued liabilities -----	2,365,266	2,336,267
Income taxes payable (Note 2) -----	1,116,900	819,931
	<u>7,353,519</u>	<u>6,310,765</u>
Working capital -----	<u>1,713,657</u>	<u>2,148,309</u>
Add—		
NON-CURRENT ASSETS:		
Fixed assets (Note 3) -----	16,849,073	15,884,709
Special refundable tax -----	32,487	88,487
Miscellaneous assets -----	260,246	239,372
	<u>17,141,806</u>	<u>16,212,568</u>
Deduct—		
NON-CURRENT LIABILITY:		
Bank loan payable March 13 1970 -----	700,000	1,000,000
Net assets -----	<u>\$18,155,463</u>	<u>\$17,360,877</u>
SHAREHOLDERS' INTEREST:		
Share capital (Note 4) -----	\$ 6,600,000	\$ 6,600,000
Income retained in the business (Note 2) -----	11,555,463	10,760,877
	<u>\$18,155,463</u>	<u>\$17,360,877</u>

APPROVED ON BEHALF OF THE BOARD:

ARTHUR F. ARMSTRONG, Director

GEORGE L. O'LEARY, Director



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS AT DECEMBER 31 1968

NOTE 1 - CONSOLIDATION:

During the year ended December 31 1968 Westminster Paper Company Limited (a non-operating subsidiary company of Scott Paper Limited in prior years) acquired the assets and operations of Omega Products Limited. The assets and liabilities of Westminster Paper Company Limited at December 31 1968 together with the results of its operation of the new business since date of acquisition to December 31 1968 have been included in the consolidated financial statements of Scott Paper Limited.

NOTE 2 - INCOME TAXES AND DEPRECIATION:

Scott Paper Limited provides depreciation substantially on a straight-line basis at rates estimated to amortize the cost of the fixed assets over their useful lives. Prior to January 1 1968 the company followed the policy of charging against earnings only income taxes actually payable after claiming maximum capital cost allowances available for income tax purposes on these fixed assets. Because capital cost allowances in previous financial years have exceeded depreciation recorded in the financial statements for those years, the company has accumulated reductions in income taxes otherwise payable of approximately \$3,902,000 to the year ended December 31 1967.

Commencing January 1 1968 the company has adopted the deferred credit method of accounting for income taxes whereby current reductions of income taxes otherwise payable are carried forward in the financial statements as a credit to those future years where capital cost allowances available for income taxes fall short of depreciation provided in the financial statements. This change in accounting method had no effect on the operations for the year ended December 31 1968 as depreciation provided in the financial statements is approximately equal to maximum capital cost allowance available for income tax purposes.

NOTE 3 - FIXED ASSETS:

	December 31	
	1968	1967
Land, at cost -----	\$ 317,174	\$ 304,363
Buildings, machinery and equipment, at cost -----	30,025,007	27,859,193
Less—Accumulated depreciation -----	13,493,108	12,278,847
Net book value of depreciable assets (in respect of which available future capital cost allowances amount to approximately \$8,730,000 - see Note 2) -----	16,531,899	15,580,346
	<u><u>\$16,849,073</u></u>	<u><u>\$15,884,709</u></u>

NOTE 4 - SHARE CAPITAL:

The authorized share capital of Scott Paper Limited consists of 2,000,000 common shares without par value of which 800,000 are issued and outstanding.

Of the 1,200,000 unissued shares, 50,000 are reserved for options under the "Key Employees' Stock Option Plan". As at December 31 1968 options to purchase 10,250 shares have been granted (but not yet exercised) at prices of \$30.62 and \$36.75 per share, valid for varying dates to 1974.

AUDITORS' REPORT

To the Shareholders,
Scott Paper Limited:

We have examined the consolidated statement of financial position of Scott Paper Limited and its subsidiary company as at December 31 1968 and the consolidated statements of income and income retained in the business and source and disposition of working capital for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the consolidated financial position of the companies as at December 31 1968 and the results of their operations and the source and disposition of their working capital for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the change, which we approve, in the method of accounting for income taxes referred to in Note 2 to the financial statements.

Vancouver, B.C.
February 5 1969.

PRICE WATERHOUSE & CO.
Chartered Accountants.

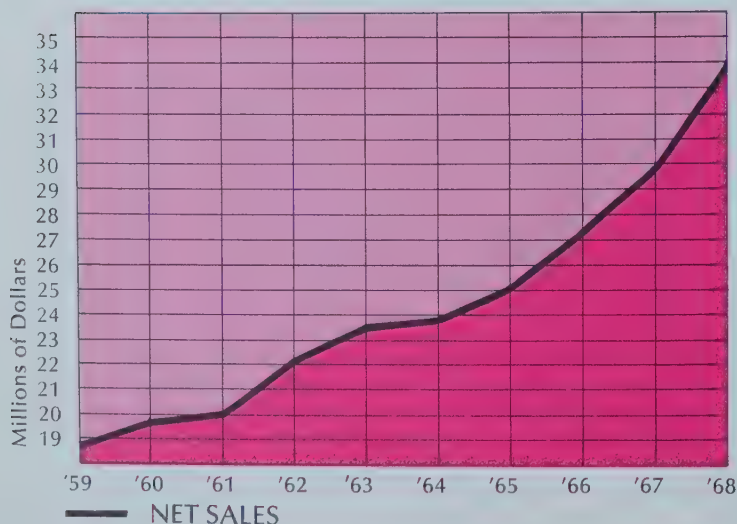
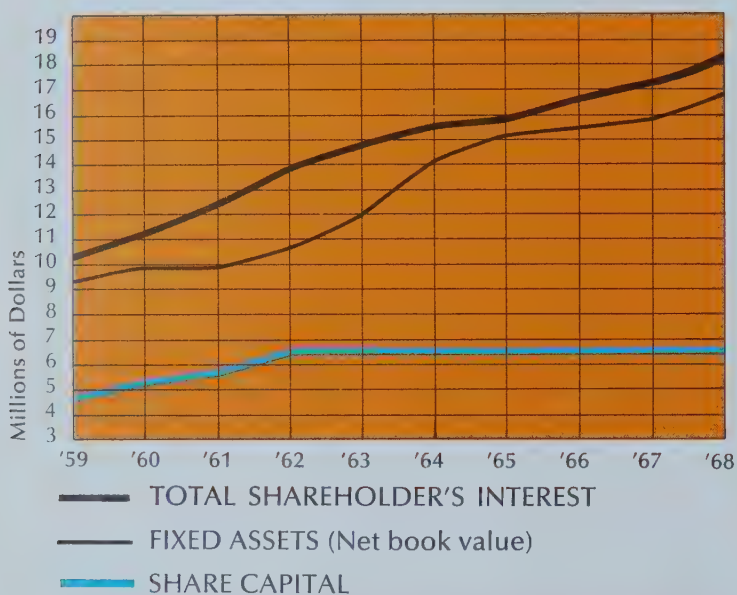
CONSOLIDATED STATEMENT OF SOURCE AND DISPOSITION OF WORKING CAPITAL

FOR THE YEAR ENDED DECEMBER 31 1968
(with comparable amounts for the year ended December 31 1967) (Note 1)

	1968	1967
Source:		
Income for the year	\$ 1,434,586	\$ 1,405,547
Add—		
Charges which did not involve an outlay of working capital—		
Depreciation (Note 2)	1,223,178	1,079,069
Special refundable tax	56,000	—
	<u>2,713,764</u>	<u>2,484,616</u>
Disposition:		
Net additions to fixed assets	2,187,542	1,480,308
Dividends	640,000	640,000
Decrease in long-term bank loan	300,000	700,000
Net increase in special refundable tax	—	24,487
Net increase in miscellaneous assets	20,874	28,500
	<u>3,148,416</u>	<u>2,873,295</u>
Decrease in working capital during the year	434,652	388,679
Add—		
Working capital at beginning of the year	2,148,309	2,536,988
Working capital at end of the year	<u>\$ 1,713,657</u>	<u>\$ 2,148,309</u>



TEN YEAR REVIEW OF FINANCIAL DATA



SALES AND EARNINGS

	1968
Net sales	\$34,133,043
Depreciation	1,223,178
Interest expense	211,189
Income before taxes	3,019,586
Income per share before taxes	3.77
Income taxes*	1,585,000
Income after taxes	1,434,586
Income per share after taxes	1.79
Cash flow per share	3.39
Income reinvested in the business	794,586
Dividends paid per share	.80
Number of shares outstanding	800,000

CAPITAL EXPENDITURES

\$ 2,187,542

FINANCIAL POSITION

Current assets	\$ 9,067,176
Current liabilities	7,353,519
Working capital	1,713,657
Fixed assets at net book value	16,849,073
Long term loans	700,000
Shareholders' interest per share	22.69

* Amounts payable after claiming maximum capital cost allowances.
Year 1964 reflects recovery of the major portion of taxes paid in 1963



1967	1966	1965	1964	1963	1962	1961	1960	1959
\$29,894,487	\$27,303,059	\$25,012,360	\$23,806,504	\$23,544,873	\$22,285,633	\$20,045,718	\$19,728,979	\$18,822,702
1,079,069	1,062,581	968,285	827,073	756,753	696,276	664,473	617,358	565,887
243,482	324,534	253,267	126,965	46,282	21,983	70,138	92,272	91,737
2,255,547	1,458,455	1,005,014	1,001,426	1,967,858	2,382,532	2,061,716	1,760,474	1,857,068
2.82	1.82	1.26	1.25	2.46	2.98	2.78	2.52	2.75
850,000	100,000	15,000	(450,000)	525,000	1,080,000	915,000	745,000	820,000
1,405,547	1,358,455	990,014	1,451,426	1,442,858	1,302,532	1,146,716	1,015,474	1,037,068
1.76	1.70	1.24	1.81	1.80	1.63	1.55	1.45	1.54
3.11	3.30	2.50	2.85	2.75	3.55	3.20	2.86	3.93
765,547	718,455	350,014	811,426	802,858	701,132	578,716	453,599	543,943
.80	.80	.80	.80	.80	.80	.80	.80	.80
800,000	800,000	800,000	800,000	800,000	800,000	740,000	700,000	675,000
\$ 1,480,308	\$ 1,416,520	\$ 1,891,233	\$ 3,123,281	\$ 2,006,808	\$ 1,420,614	\$ 650,409	\$ 1,179,234	\$ 2,055,030
\$ 8,459,074	\$ 8,661,055	\$ 8,295,389	\$ 7,679,655	\$ 6,394,320	\$ 5,791,036	\$ 5,375,872	\$ 4,327,902	\$ 3,812,212
6,310,765	6,124,067	5,975,125	4,789,564	2,790,209	2,723,735	2,699,994	2,476,277	2,119,602
2,148,309	2,536,988	2,320,264	2,890,091	3,604,111	3,067,301	2,675,878	1,851,625	1,692,610
15,884,709	15,483,470	15,129,531	14,206,583	11,910,375	10,660,320	9,935,982	9,950,046	9,388,170
1,000,000	1,700,000	2,000,000	2,000,000	1,000,000	—	400,000	1,000,000	1,100,000
21.70	20.74	19.85	19.41	18.39	17.39	16.72	15.84	15.23

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SCOTT PAPER LIMITED

STATEMENT OF OPERATIONS The First Six Months of 1968

Subject to audit and year end adjustments



SCOTT PAPER LIMITED

Statement of Income for the First Six Months of 1968 (with corresponding amounts for 1967)

	First Half 1968	First Half 1967
Sales, less discounts and allowances.....	<u>\$17,384,638</u>	<u>\$15,586,725</u>
Expenses:		
Cost of products sold (Note 1).....	<u>11,550,093</u>	<u>10,572,517</u>
Marketing, general, administrative and development expenses.....	<u>4,280,718</u>	<u>3,898,763</u>
	<u>\$15,830,811</u>	<u>\$14,471,280</u>
Income before taxes.....	<u>1,553,827</u>	<u>1,115,445</u>
Provision for taxes on income (Note 2).....	<u>823,528</u>	<u>420,355*</u>
Income after taxes for the period.....	<u>\$ 730,299</u>	<u>\$ 695,090</u>
Income per share after taxes (Note 2).....	<u>\$.91</u>	<u>\$.87</u>
Dividend paid per share.....	<u>.40</u>	<u>.40</u>
Number of common shares outstanding.....	<u>800,000</u>	<u>800,000</u>

* The provision for taxes for the first six months of 1967 has been adjusted to reflect the six months share of the taxes actually paid for that year.

NOTES:

- (1) Cost of products sold includes depreciation of \$564,762 for the first six months of 1968 compared with \$528,009 for the first six months of 1967.
- (2) In 1967 capital cost allowances claimed for income tax purposes were considerably in excess of depreciation charges in the accounts resulting in a reduction of approximately \$221,000 in income taxes otherwise payable for the first six months and in an effective tax rate of 37.7%. In 1968, however, it is anticipated that maximum capital cost allowances available will be equal to the depreciation charges, resulting in an effective tax rate of approximately 53%, and accordingly, no corresponding reduction in the income tax liability is expected.

In accordance with the recommendations of the Canadian Institute of Chartered Accountants regarding income taxes, the company has decided to change from reporting its results on the "cash flow through" basis followed in 1967 and prior years to the "tax allocation" basis beginning in 1968. Under either method of reporting the provision for taxes in 1968 would be similar in amount at approximately a 53% rate.

Statement of Source and Disposition of Working Capital For the Six Months ended June 29, 1968. (with corresponding amounts for the six months ended July 1, 1967)

	First Half 1968	First Half 1967
Source:		
Income for the period	<u>\$ 730,299</u>	<u>\$ 695,090</u>
Add —		
Charges which did not involve an outlay of working capital —		
Depreciation (Note 1)	<u>564,762</u>	<u>528,009</u>
	<u>\$1,295,061</u>	<u>\$1,223,099</u>
Disposition:		
Net additions to fixed assets	<u>795,703</u>	<u>716,003</u>
Dividends	<u>320,000</u>	<u>320,000</u>
Increase in special refundable tax	<u>—</u>	<u>56,487</u>
Net increase in miscellaneous amounts	<u>1,249</u>	<u>3,500</u>
	<u>\$1,116,952</u>	<u>\$1,095,990</u>
Increase in working capital during the period	<u>178,109</u>	<u>127,109</u>
Add —		
Working capital at beginning of the year	<u>2,148,309</u>	<u>2,536,988</u>
Working capital at end of the period	<u>\$2,326,418</u>	<u>\$2,664,097</u>